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SUBJECT: MOZAMBIQUE: Update for 2007 President's Report on
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Market Economy, Economic Reform, and Elimination of Trade
Barriers

¶1. (U) The Government of Mozambique (GRM) continues to work toward creating an investment-friendly, market-based economy. Mozambique has one of the most dynamic and fastest-growing economies in sub-Saharan African, although the growth is from a very low base and is supported by substantial donor assistance. Mozambique's decade-long commitment to sound macroeconomic policies and structural reform has led to significant improvement in economic performance. GDP growth between 1995 and 2006 averaged approximately 8 percent, with growth of 7.7 percent in 2005 and 7.9 percent in 2006. (Note: Growth rates are World Bank estimates. End note.) The GRM expects an average real GDP growth rate of seven to ten percent over the next five years, and the International Monetary Fund predicts seven percent real GDP growth through 2009. Large foreign direct investment projects, so called mega-projects, helped fuel the rapid economic growth over the last several years. The inflation rate for 2006 was 9.4 percent.

¶2. (U) Although the GRM has privatized most enterprises, several important sectors remain state-owned through parastatals, including the national airline, the national electricity company, the national insurance company and the national port and rail company. The GRM privatized over 1,200 enterprises between the end of the civil war in 1992 and 2005. Although the period of mass privatization ended a couple of years ago, private sector involvement in public enterprises continues via partnerships between parastatals and private companies. There is some belief that some of the remaining parastatals may still be sold off, however when or how this might happen is still unclear.

¶3. (U) HIPC (Heavily Indebted Poor Countries) and Enhanced HIPC debt relief provided the GRM with breathing room to focus efforts on alleviating poverty, a key policy goal. These efforts received more support in 2005 and 2006, when the IMF forgave 100% of Mozambique's debt (USD 153 million) incurred prior to January 1, 2005 under the new Multilateral Debt Relief Initiative (MDRI).

¶4. (U) Although Mozambique has successfully eliminated some trade barriers, many, including non-tariff barriers, still remain a problem. Mozambique does not use import quotas, although many consider the often time-consuming and bureaucratic customs clearance procedures significant non-tariff barriers. Mozambique's trade-weighted average

tariff is now less than nine percent, one of the lowest in Africa, but duties on imported goods range from zero to 20 percent. Customs also assesses a value-added tax of 17 percent at the time of importation.

¶15. (U) The GRM remains cooperative on intellectual property rights (IPR) protection but has little ability and few resources to investigate crimes or enforce IPR laws. An ongoing collaborative effort between the private sector and law enforcement has led to the creation of IPR task forces. This collaboration seems to be working well and has addressed a few individual cases of IPR violations. Despite this progress, IPR issues remain, including the occasional showing of pirated films on local television prior to their theater debut.

¶16. (U) While foreign direct investment is welcome, there are still many obstacles. Private ownership of land is not allowed under the Mozambican constitution. According to the World Bank's 2007 Doing Business Report, it takes an average of 113 days to start a business in Mozambique. In the same report Mozambique ranked 140 out of 175 countries on overall ease of doing business, a three position drop from 2006. The government and private sector continue to work with donors to improve the business environment, a key objective for the United States' mission to Mozambique. In March 2005 the US-Mozambique Bilateral Investment Treaty entered into force. In June 2005 Mozambique and the United States signed a Trade and Investment Framework Agreement (TIFA), creating an opportunity to further expand the trade relationship. The first Trade and Investment Council meeting under the TIFA was held in October 2006 with both countries reaffirming a commitment to improving the business environment and increasing economic growth.

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Rule of Law, Political Pluralism and Anti-Corruption

¶17. (U) Mozambique has a democratically elected government. In December 2004 Armando Guebuza of the FRELIMO party was elected president with 64% of the vote. The election was generally considered free and fair, but was marred by some irregularities. The opposition retains 36 percent of seats in the National Assembly and holds several mayorships, including in Beira, the nation's second largest city.

¶18. (U) Corruption continues to be a serious problem, undermining Mozambique's democratic consolidation and economic growth. Senior officials often have conflicts of interest between their public roles and their private business interests. Local NGOs and media groups observed that no corruption cases involving high-profile individuals have been brought to trial during the Guebuza administration. Bribery is considered a criminal offense in Mozambique, and political declarations have been repeatedly issued denouncing corrupt practices and promising actions against the guilty. Despite this, investigations rarely result in convictions unless the accused has relatively minor influence, and senior officials are seldom, if ever, investigated. The National Assembly passed an anti-corruption bill in 2003. This bill was enacted in 2004. In April 2006 the government launched a National Anticorruption Strategy; however, a September 2006 report submitted following a six-month review of the strategy by 18 donor nations stated that there had been "no progress on implementing the government's anticorruption strategy." Mozambique is a signatory to the United Nations Convention Against Corruption and the African Union Convention to Prevent and Combat Corruption.

¶19. (U) With assistance from USG resources, the government set up an Anti-Corruption Unit in the Office of the Attorney General (renamed in 2005 the Central Office for

the Combat of Corruption (GCCC)). This body is charged with investigating and prosecuting corruption-related crimes. As one result of its reorganization in 2005, the office expanded its size by adding more lawyers. Unfortunately, Mozambique's judiciary continues to be undertrained, understaffed, and reportedly susceptible to pressure from high-ranking government and FRELIMO party officials and to bribery by private parties. In October 2006 the Attorney General announced that the GCCC had forwarded 17 new cases to the courts, in which the state was robbed of a total of USD 1 million. Mozambique ranked 99 out of 158 countries on Transparency International's 2006 Corruption Perception Index.

¶10. (U) Through its Action Plan for the Reduction of Absolute Poverty, the GRM continues to place the fight against poverty at the top of its agenda. Mozambique has made tangible progress in this area, reducing poverty rates from 69 percent in 1996 to 54 percent in 2004. Mozambique's second Plan for the Reduction of Absolute Poverty (PARPA II), covering the period of 2006-2009, was launched in June 2006. The PARPA II aims to reduce, by 2009, the percentage of the population living below the poverty line from 54 to 45 percent. The latest IMF review released in February 2006 stated that Mozambique continues to honor its commitments and to follow its Action Plan. In 2006 donors funded nearly half of Mozambique's national budget, allowing Mozambique to make significant long-term investments in health, education and basic infrastructure. HIV/AIDS continues to present a long-term challenge to Mozambique's poverty reduction and economic goals.

Labor and Child Labor

¶11. (U) The GRM generally respects labor rights, and has ratified ILO Convention 87 and 98, the right of association and the right to collective bargaining, respectively. The Organization of Mozambican Workers (OTM-Central Sindical), an umbrella organization for 13 trade unions representing 1,470 companies, reports just over 103,000 union members. The smaller Confederation of Free, Independent Trade Unions (CONSILMO) represents four trade unions and has approximately 57,000 members. In 2006 the GRM increased the country's statutory minimum wage by 13 percent, somewhat above the 2005 inflation rate. Mozambique's

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current labor law is very rigid; however a proposed revision was submitted to the General Assembly in 2006. As of March 5, 2007, the General Assembly had not yet reviewed the proposal. The revision was an attempt to address major labor law issues; what form the final version will take is still not known.

¶12. (U) The GRM ratified ILO Conventions 105 and 29 on forced labor, as well as ILO Convention 182 on the worst forms of child labor. Despite this, child labor remains an issue, with approximately 1/3 of all urban children between the ages of 10 and 14 engaged in the economy and overwhelmingly in the informal sector.

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